GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:43
ANSWERED ON:03.12.2004
INFLATION RATE
Chaliha Shri Kirip;Patil Shri Balasaheb Vikhe

Will the Minister of FINANCE be pleased to state:

(a) Whether there has been continuous rise in inflation rate;

(b) if so, the details thereof during each of the last two year;

(c) Whether recent hike in fuel prices has pushed inflation up by 0.7 % during first week of November, 2004;

(d) If so, the steps taken by the government to absolve the common man from increase in fuel prices and its consequent effects; and

(e) The other steps being taken by the Government to bring down the rate of inflation and to check the prices rise?

Answer

FINANCE MINISTER(SHRI P. CHIDAMBARAM)

(a),(b), (c) ,(d) & (e) ; A Statement is placed on the table of the house.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA QUESTION NO.43 FOR 3rd DECEMBER 2004

(a) & (b): The current year 2004-05 started with an inflation rate (in terms of point-to-point Wholesale Price Index) of

4.5 per cent on April 3, 2004. Since then, it had an upward trend until August 28, 2004, when it reached 8.7 per cent compared to 4.1 per cent a year ago. However, it has come down to 7.3 per cent at the 33rd week ended on November 13 , 2004 . The monthly average rates of inflation in terms of the Wholesale Price Index (WPI) for the last two years are given below:

Average inflation rate based on WPI (base 1993-94)

(in per cent)

Year	2002-03	2003-04	2004-05
APR	1.5	6.6	4.5
MAY	1.6	6.5	5.0
JUN	2.4	5.4	6.7
JUL	2.8	4.6	7.6
AUG	3.3	3.9	8.5
SEP	3.5	4.9	7.8@
OCT	3.1	5.1	7.3@
NOV	3.4	5.4	-
DEC	3.3	5.8	-
JAN	4.2	6.5	-
FEB	5.3	6.1	-
MAR	6.0	4.8	-
Average	3.4	5.5	

@ Provisional

(c): Yes, Sir .The increase in the inflation rate in the first week of November 2004 by 0.7 per cent was mainly contributed by an increase in the WPI of fuels related group. The inflation increased from 7.1 per cent on October 30, 2004 to 7.8 per cent on November 6, 2004 as a result of an increase in the prices of petrol, diesel and LPG with effect from the midnight of November 4, 2004. Besides, as on November 6, 2004, four items viz. minerals, coal, petroleum products and metal group with weights of 17.5% in the WPI accounted for 64% of overall inflation. There has been a hardening of international prices of these commodities due to a surge of global demand. Therefore, a major part of our inflation can be said to be imported. On the other hand, despite deficient rainfall, food prices (in both primary and manufactured groups) have registered lower inflation than other items. Since food items have larger weights in the Consumer Price Index (CPI) for Industrial Workers than in WPI,CPI inflation has been lower than WPI inflation. The CPI inflation stood at 4.6% in October 2004 compared with the average WPI inflation at 7.3% in October 2004.

(d) & (e) Containment of inflation remains high on the agenda of the government. Anti-inflationary policies of the government include strict fiscal and monetary discipline, rationalisation of excise and import duties of essential commodities so that there is no undue burden on the poor, effective supply-demand management of sensitive items through liberal tariff and trade policies, and strengthening the public distribution system. Specific measures taken by the government to contain inflation include the following:

On June 15, 2004, government reduced excise duties on selected petroleum products to keep their domestic retail prices in check in the face of rising international prices of oil. Excise duty on petrol was reduced from 30 per cent to 26 per cent, that on high speed diesel from 14 per cent to 11 per cent and that on liquefied petroleum gas (LPG) from 16 per cent to 8 per cent.

On August 18, 2004, government reduced further excise and customs duties on selected petroleum products. Customs duty on petrol, diesel, LPG and kerosene were reduced by 5 per cent each, while excise duty was reduced by 3 per cent each for petrol and dieseland by 4 per cent for kerosene.

On August 20, 2004, government reduced customs duties on non-alloy steel and ships for breaking to 5 per cent from 10 and 15 per cent respectively in order to check high inflation in metals and metal products. Melting scrap of iron and steel was fully exempted from customs duty. To check the liquidity overhang in the system, the Reserve Bank of India (RBI), on September 11, 2004, hiked the cash reserve ratio(CRR), to be maintained by banks, by 50 basis points to 5 per centof their demand and time liabilities. In a bid to control the prices of edible oils and make its availability easy, the government on September 16, 2004 cut tariff values on many vegetable oils by around $50 a metric ton.

In its Mid-Term Review of the Annual Policy Statement for 2004-05announced on October 26, 2004, the RBI hiked the reverse repo rate(i.e. the interest rate paid on bank funds placed with the RBI against government paper) by 25 basis points to 4.75 per cent.

As there was a fall in the international prices of crude oil, oil companies reduced the prices of petrol by up to Rs. 1.26 per litre with effect from November 15, 2004.